

# Audit

# Report



OFFICE OF THE INSPECTOR GENERAL

CONSTRUCTION PROJECT FOR THE CONVERSION OF  
THE AMELIA EARHART FACILITY, GERMANY

Report No. 96-071

February 15, 1996

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**Department of Defense**

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### **Acronyms**

DCMAO  
USAEDE  
USAREUR

Defense Contract Management Area Operations  
U.S. Army Engineer District Europe  
U.S. Army Europe



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February 15, 1996

**MEMORANDUM FOR AUDITOR GENERAL, DEPARTMENT OF THE ARMY**

**SUBJECT: Audit Report on Construction Project for the Conversion of the Amelia Earhart Facility, Germany (Report No. 96-071)**

We are providing this audit report for review and comment. The report discusses allegations to the Defense Hotline about the construction project to convert the Amelia Earhart Hotel in Wiesbaden, Germany, to an office building. A separate report will discuss the funding used for this and other projects. Management comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all recommendations and potential monetary benefits be resolved promptly. As a result of management comments, we revised draft Recommendations B.1. and B.2. to clarify our intention. We request that the Army provide comments on Recommendations B.1. and B.3. by April 15, 1996. We also ask that the Army comment on the potential monetary benefits.

The courtesies extended to the audit staff are appreciated. Questions on the audit should be directed to Mr. Joseph P. Doyle, Audit Program Director, at (703) 604-9348 (DSN 664-9348), or Ms. Deborah L. Culp, Audit Project Manager, at (703) 604-9335 (DSN 664-9335). If management requests, we will provide a formal briefing on the audit results. See Appendix F for the report distribution. The audit team members are listed on the inside back cover.

Robert L. Lieberman  
Assistant Inspector General  
for Auditing

## Office of the Inspector General, DoD

Report No. 96-071  
(Project No. 5CK-8002)

February 15, 1996

### Construction Project for the Conversion of the Amelia Earhart Facility, Germany

#### Executive Summary

**Introduction.** The audit was performed in response to a complaint to the Defense Hotline. The complaint alleged that the plan by the U.S. Army Engineer District Europe to gut the Amelia Earhart building was unnecessary and was based on the U.S. Army Engineer District Europe's preference for large and open work spaces. The complaint alleged that the Government could save about \$2.2 million if existing walls and bathrooms were not demolished. Further, the complaint alleged that work was improperly classified and funded and that minor construction costs exceeded the statutory limit of \$300,000.

**Objectives.** The audit objectives were to determine whether the scope of the construction project was excessive and whether the work was properly classified and funded. We also evaluated the effectiveness of the management controls as they applied to the other objectives. A separate report will discuss other funding issues related to the Amelia Earhart project and other projects.

**Audit Results.** The allegations were partially valid. The audit indicated that the space allocated to the prospective tenants was excessive. However, because the contract was awarded before the audit was announced and almost complete when the audit field work was complete, the cost to terminate the contract outweighed the potential monetary benefits. Therefore, we did not validate that \$2.2 million could be put to better use. In addition, work was misclassified and improperly funded. Part I of the report provides detailed results of our review.

- The Army overestimated space requirements for the three tenants that were to occupy the Amelia Earhart facility. As a result, more than three floors of the Amelia Earhart facility were unnecessarily renovated at a cost of about \$1.6 million (Finding A).

- The Army improperly classified minor construction work as repair work on the Amelia Earhart facility. As a result, the Army exceeded the statutory limit of \$300,000 for using Real Property Maintenance, Defense, funds (Finding B).

Our review of management controls is discussed in Appendix A.

Recommendations in this report, if implemented, will help avoid future statutory violations. In addition, monetary benefits of \$1.6 million may be realized by better use of the newly renovated space (Appendix D).

**Summary of Recommendations.** We recommend reevaluating the space required for the building's occupants and putting excess space to better use. In addition, we recommend clarifying the guidance on work classification during conversions and reemphasizing controls that preclude personnel from bypassing the responsible officials in the chain of command for work classification determinations.

**Corrective Actions Taken by Management.** The Assistant Secretary of the Army (Installations, Logistics, and Environment) took corrective action to obtain a \$462,000 Unspecified Minor Construction appropriation; deobligated the FY 1993 Real Property Maintenance, Defense, fund; obligated FY 1994 Military Construction, Army, funds; and notified Congress of the Amelia Earhart facility project. Therefore, there is no need for additional recommendations to correct the funding misclassification.

**Management Comments.** The Army concurred with the recommendations to reevaluate space requirements, to put excess space to better use, and to stop making work classification determinations outside of its responsibility. Also, the Army partially concurred with the recommendation to clarify the guidance on the designated functional purpose test and concurred in principle to reemphasize the role of the local Director of Engineering and Housing in work classification determinations. The Army nonconcurred with the recommendation to forbid making administrative conversions, citing the need for command flexibility. See Part I for a summary of management comments on the recommendations and see Part III for a complete text of management comments.

**Audit Response.** As a result of management comments and for clarification, we revised the recommendation to reemphasize the role of the local Director of Engineering and Housing in work classification determinations to make clear that not all work needs to be reviewed. Also as a result of management comments and discussions with management officials, we revised the recommendation to clarify that administrative conversions should not change the work classification determinations. We request the Army to provide comments on the unresolved recommendations under Finding B. and estimated potential monetary benefits by April 15, 1996.

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## **Part I - Audit Results**

### Audit Background

**Introduction.** A complaint to the Defense Hotline alleged that the plan by the U.S. Army Engineer District Europe (USAEDE) to gut the Amelia Earhart building as part of converting it from a hotel to an office building was unnecessary and was based on a USAEDE preference for large and open work spaces. The complaint alleged that instead of gutting the building, the Government could save about \$2.2 million if existing walls and bathrooms were not demolished. Further, the complaint alleged that work was improperly classified and funded and that minor construction costs exceeded the statutory limit of \$300,000. See Appendix C, "Summary of Allegations and Audit Results," for results of our review of the specific allegations to the Defense Hotline.

**History of the Amelia Earhart Hotel.** The Amelia Earhart Hotel was built in Wiesbaden, Germany, in 1956 for the U.S. Air Force and served primarily as temporary quarters. The hotel included a restaurant, a bar, a basement, and about 375 guest rooms on eight floors.

**Organizations Relocating.** Because of a drawdown of personnel, the USAEDE, U.S. Army Europe (USAREUR) Contracting Center (now the Wiesbaden Regional Contracting Center), and Defense Contract Management Area Operations (DCMAO) Germany vacated their administrative buildings in Frankfurt and relocated to the Amelia Earhart facility in Wiesbaden.

**Renovation Cost.** The project to convert the Amelia Earhart from a hotel to an office building was designed by USAEDE and awarded to a German contractor. The basic contract, DACA90-94-C-0124, was for the conversion of the basement, the ground floor, and the next three floors. That contract was awarded on September 29, 1994, for about \$1.86 million. An option for converting the remaining floors was exercised on September 30, 1994, for about \$1.9 million. Included in the \$3.76 million contract was minor construction work totaling about \$248,500.

### Audit Objectives

The audit objectives were to determine whether the scope of the construction project was excessive and whether the work was properly classified and funded. We also evaluated the effectiveness of the management controls as they applied to the other objectives. A separate report will discuss other funding issues related to the Amelia Earhart project and other projects. See Appendix A for a discussion of the scope and methodology and the management control program. See Appendix B for a summary of prior audit coverage related to the audit objectives.



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## **Finding A. Space Requirements**

The Army overestimated the space requirements for the three tenants that were to occupy the Amelia Earhart facility. The overestimate of space occurred because 53rd Area Support Group and USAEDE officials did not follow Army guidance to compute administrative space requirements. Also, USAEDE officials inflated the amount of office space needed by including space for unauthorized personnel and for excessive conference rooms. As a result, more than three floors of the Amelia Earhart facility were unnecessarily renovated at a cost of about \$1.6 million. The excess renovated space should be made available for use by other Military or Government organizations in Europe.

### **Space Utilization Policy and Guidelines**

**Policy.** Army Regulation 405-70, "Utilization of Real Property," October 15, 1993, establishes policy for real property use and guidelines for use of space. The regulation bases real property requirements on authorized personnel strength and equipment and on validated missions and functions. In addition, the policy encourages the sharing of conference space and prohibits the use of real property in excess of guidelines.

**Guidance.** The amount of space authorized for existing facilities is determined by multiplying the space required for each grade by the number of authorized personnel at that grade and then adding to the resulting total for all grades the net square feet of storage and special space. The goal of Army Regulation 405-70 is to achieve an average office utilization rate of 130 net square feet or less. The Management Support Office at Washington Headquarters Services uses an estimate of 150 net square feet per authorized person to confirm that requests for administrative office space in the national capital region are reasonable. The Army program manager for space utilization uses an estimate of 200 gross square feet or 165 net square feet per authorized person to confirm that requests for administrative office space in the United States or overseas are reasonable. Net square feet is determined by subtracting space for basic building infrastructure such as elevators, fixed hallways, janitorial closets, and utility rooms from the gross square feet. The Army program manager for space utilization stated that the storage space in the basement should not be included in the total estimated gross square feet available at the Amelia Earhart facility.

## Finding A. Space Requirements

### Space Requirements Determination

**Army Estimation.** The Army overestimated the space needed for USAEDE, USAREUR Contracting Center, and DCMAO Germany at the Amelia Earhart facility by about 62,600 gross square feet, or more than three floors. The Army estimated that the three tenant commands would need 156,579 gross square feet.

**Actual Space Required.** We determined that the three tenant activities should occupy about 94,000 gross square feet of the 156,579 gross square feet available. We computed that requirement by allowing 200 gross square feet for each of the 470 authorized personnel. Further, we did not include the 9,300 net square feet of storage or office space in the basement that the three tenants planned to use. If the space in the basement was included in the estimated total gross square feet planned, the amount of excess space would have been greater.

The difference between the authorized 94,000 gross square feet and Army's estimate of 156,579 gross square feet was underutilized space that could be put to better use by other Military or Government organizations in Europe.

Table 1 shows the comparison between the amount of space authorized and the space actually renovated. The excess renovated space is the difference between those amounts.

**Table 1. Amelia Earhart Facility Space**

	<u>Authorized Personnel</u>	<u>Authorized GSF<sup>1</sup></u>	<u>Army Estimated GSF<sup>1,2</sup></u>	<u>Excess GSF<sup>1</sup></u>
DCMAO	64	12,800	21,104	8,304
UCC <sup>3</sup>	139	27,800	39,077	11,277
USAEDE	<u>267</u>	<u>53,400</u>	<u>96,398</u>	<u>42,998</u>
<b>Total</b>	<b>470</b>	<b>94,000</b>	<b>156,579</b>	<b>62,579</b>

<sup>1</sup>Gross square feet.

<sup>2</sup>All floors above the ground floor have 18,421 GSF. The ground floor was estimated at 9,211 GSF. DCMAO has actual work space on the ground floor of 1,654 GSF. We allocated the remaining 7,557 GSF of ground floor space used for telephone, mail, lobby, and exercise rooms to each tenant proportional to the number of authorized personnel.

<sup>3</sup>USAREUR Contracting Center.

## Computation of Administrative Space Requirements

**Responsibility for Space Allocation.** The Commander, 53rd Area Support Group, is responsible for the space allocation within the Wiesbaden area. The former Commander of the 53rd Area Support Group assigned the space within the Amelia Earhart facility during February through April 1994. Five floors were assigned to USAEDE, two floors to the USAREUR Contracting Center, and one floor to DCMAO Germany.

**53rd Area Support Group.** Officials of the 53rd Area Support Group did not compute the administrative space requirements based on Army Regulation 405-70 and could not document how the space requirements were determined. All officials associated with the previous determination were no longer employed at that office. We could not locate the individuals involved with the space determinations who previously worked at the 53rd Area Support Group. We could not determine whether the 53rd Area Support Group officials validated the personnel counts and space requirements that USAEDE personnel provided.

**U.S. Army Engineer District Europe.** USAEDE officials did not compute the administrative space requirements based on Army Regulation 405-70. The officials inflated the amount of office space needed by including space for unauthorized personnel and for excessive conference rooms.

**Space for Unauthorized Personnel.** USAEDE officials inflated the amount of space needed by planning space for unauthorized personnel to include temporary personnel, visitors on extended travel status, and potential new hires. USAEDE officials realized that the amount of planned space exceeded guidelines and did not act on requests from either the Logistics Management Office or the Trans-Atlantic Division, both offices of the U.S. Army Corps of Engineers, to exclude unauthorized personnel and to eliminate special space areas as much as possible. USAEDE officials did not act because they believed that space was needed for potential new hires (that never materialized). Furthermore, USAEDE officials believed the project would be canceled if the scope of the project changed. We believe that USAEDE officials left the project scope unchanged because they did not want to occupy office space converted from hotel rooms, but instead, preferred large and open work spaces.

**Space for Conference Rooms.** The USAEDE design included too many conference rooms for the three organizations. The USAEDE plans and drawings, dated July 12, 1994, included 25 conference rooms and 1 classroom. The plans allocated 17 conference rooms and 1 classroom to USAEDE, 4 conference rooms to USAREUR Contracting Center, and 4 conference rooms to DCMAO Germany. After we briefed U.S. Army Corps of Engineers officials, the total number of conference rooms was reduced to 23 and reallocated (13 for USAEDE, 6 for USAREUR Contracting Center, and 4 for DCMAO Germany). We could not determine whether the 53rd Area Support Group officials were aware of the USAEDE conference room plans. We believe that the number of planned conference rooms is excessive and that some

## **Finding A. Space Requirements**

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of the conference rooms could be put to better use and shared among the tenants in the facility. Sharing conference space would free up space to be put to better use.

### **Renovation Cost**

The total cost of renovation, including the estimated contract modifications, was about 8.7 million Deutsch Marks, or \$4.1 million (official FY 1994 budget conversion rate of 2.12). An estimated cost of \$26.18 per gross square foot was calculated by dividing the total estimated renovation cost by the total gross square feet of 156,579. We estimated, by multiplying the excess gross square feet from Table 1 (62,579) by the cost per gross square foot (\$26.18), that about \$1.6 million of renovation was performed on space that was not required for the planned tenants. That \$1.6 million of renovated space could be put to better use by moving other organizations in Europe into the facility to efficiently use the excess renovated space.

### **Conclusion**

We determined that more than three floors of space were unnecessarily renovated for the planned tenants at the Amelia Earhart facility. That space should be considered excess because the facility has already been renovated and costs cannot be recouped. The excess space should be used for a tenant that needs the space. The Commander, 53rd Area Support Group, should reevaluate the amount of office space required to support the three tenants now occupying the facility and should consider moving other Military or Government organizations into the facility to efficiently use the excess space.

### **Recommendations, Management Comments, and Audit Response**

#### **A. We recommend that the Commander, 53rd Area Support Group:**

- 1. Reevaluate the amount of office space required to support the three tenants at the Amelia Earhart facility using space utilization guidelines stated in the Army Regulation 405-70, "Utilization of Real Property," October 15, 1993.**

## Finding A. Space Requirements

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**2. Make excess space in the Amelia Earhart facility available to other Military or Government organizations in Europe.**

**Management Comments.** The Army concurred. The space is being reevaluated and reduced accordingly.

**Audit Response.** The Army comments are responsive; however, the Army did not respond to the potential monetary benefits. We request that the Army provide comments on the potential monetary benefits in its response to the final report.

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## **Finding B. Work Management**

The Army improperly classified minor construction work as repair work on the conversion project for the Amelia Earhart facility. The work was improperly classified because Army officials did not consult the local Director of Engineering and Housing responsible for work classification, and unauthorized personnel made work classification determinations without having their work reviewed. Also, work classification guidance was unclear. As a result of the improper work classifications, the Army exceeded the statutory limit of \$300,000 for using Real Property Maintenance, Defense, funds.

### **Work Classification and the Type of Funds**

The proper use of funds depends on the correct classification of work. Work classified as maintenance or repair is paid for with funds designated for operation and maintenance. Work may be classified as repair only if the item or component in question exists, is failed or failing, and is returned to its designated functional purpose on completion of the work. Generally, work necessary to convert a facility from one use to another is classified as construction. For work to be classified as repair during a conversion, the item or component must exist, the item or component must be in a failed or failing condition, and the repair would have to have been a valid requirement even if the conversion did not take place.

**Chain of Command.** In Europe, initial work classification determinations for Army repair and maintenance projects are the responsibility of the local Director of Engineering and Housing. Subsequently, work classification determinations are reviewed by USAREUR headquarters. Questions on work classification may be referred first to the U.S. Army Center for Public Works and then to the Army Assistant Chief of Staff for Installation Management. Army work classification policy and guidance is the responsibility of the Army Assistant Chief of Staff for Installation Management.

**Maintenance, Repair, and Minor Construction.** Maintenance is recurring work not resulting in substantial improvement that preserves, sustains, or maintains a facility or component. Repair is the restoration of a real property facility so that it may effectively be used for its designated purpose. Minor construction results when an item or component is added, extended, altered, or converted. In addition, minor construction generally results when items or components that are not failed or failing are replaced or improved.

**Funding for Real Property, Construction Projects.** United States Code, title 10, section 2805, "Unspecified Minor Construction," specifies the funding sources for real property, construction projects. For minor construction

projects less than \$300,000, either Operation and Maintenance, Army, or Real Property Maintenance, Defense, funds must be used. For minor construction projects between \$300,000 and \$1.5 million, an Unspecified Minor Construction appropriation must be used and Congress must be notified. The Antideficiency Act provides for fines up to \$5,000 for individuals who willfully use either Operation and Maintenance, Army, or Real Property Maintenance, Defense, funds for minor construction projects of \$300,000 or more. Army Regulation 37-1, "Army Accounting and Fund Control," October 1, 1989, establishes procedures for determining whether fines should be assessed.

## Value of Minor Construction

USAREUR and USAEDE officials incorrectly classified minor construction as repair work on the Amelia Earhart conversion project. The incorrect classification exceeded the \$300,000 statutory limit for Real Property Maintenance, Defense, funds by \$162,000. Table 2 shows the value of minor construction from the date the contract was signed on September 29, 1994, until May 1995. The next section in this report gives details.

**Table 2. Value of Minor Construction  
(rounded to nearest \$500)**

<u>Classification of Work*</u>	<u>Value</u>	<u>Cumulative Value</u>
Initial amount correctly classified as minor construction	\$248,500	\$248,500
Minor construction (including landscaping) improperly classified as repair	86,000	334,500
Proposed modifications	(101,500)	233,000
Minor construction (plumbing) improperly classified as repair	74,500	307,500
Proposed changes to quantities	(21,500)	286,000
Minor construction (wall demolition) improperly classified as repair	176,000	462,000
<b>Value of Minor Construction as of May 1995</b>		<b>\$462,000</b>

\* As established in the contract.

## **Improper Classifications and Proposed Contract Modifications**

**Minor Construction Improperly Classified as Repair.** Minor construction work on the \$4.1 million contract exceeded the \$300,000 minor construction limitation by \$34,500 when the contract was signed. USAEDE officials correctly classified \$248,500 of new work, but improperly classified an additional \$86,000 of minor construction as repair work before the contract was signed, for a total of \$334,500. About half the improperly classified amount was for landscaping that USAEDE officials put in the contract, even though USAREUR officials, who were supposed to approve work classifications, told them not to. USAEDE officials realized that the contract exceeded the limit when the contract was signed on September 29, 1994. We believe that the USAEDE officials did not correct the misclassification of work so that the funds could be used before the end of the fiscal year.

Other examples of work misclassified in the contract as repair that was actually minor construction included:

- new acoustical wall panels,
- new accordion doors, and
- new drinking fountains.

Subsequently, USAEDE deleted the purchase of drinking fountains from the contract because those items were available free from Army surplus stocks.

**Proposed Modifications.** After our initial field visit, USAEDE officials said that they intended to modify the contract and delete at least \$101,500 of minor construction work to correct the problem and to bring the amounts classified as construction to under \$300,000. However, USAEDE officials could not document that the modifications were planned before our office announced the audit. The modifications were in various stages of completion at the end of our visit in May 1995.

**Plumbing Improperly Classified as Repair.** USAREUR and USAEDE officials improperly classified plumbing work that was not failed or failing as repair. Initially, USAEDE expected to find original galvanized water pipes that were corroded. However, when construction work began, USAEDE discovered that the galvanized water pipes expected had been replaced with copper pipe. USAEDE officials provided no documentation that the copper pipes were failed or failing. Nevertheless, USAREUR and USAEDE officials classified plumbing work as repair because of the "general deteriorated condition of the facility, including subcomponents of the plumbing system." The Army Assistant Chief of Staff for Installation Management officials did not agree with the USAREUR and USAEDE classification of the plumbing work as repair. Following contract award, officials in the Office of the Army Assistant Chief of Staff for Installation Management classified \$74,500 of plumbing work as construction because the water supply system was not failed or failing and, therefore, the work could not be properly classified as repair.



**Proposed Changes to Quantities.** After our initial field visit, USAEDE proposed changes to quantities ordered that would have resulted in a net decrease of \$21,500 in minor construction work on the contract. The decrease would result primarily from keeping the top floors unchanged. Examples included reducing wall demolition work planned for upper floors in the hotel and leaving the marble bathroom in the suite on the top floor unchanged. Those changes were in various stages of completion at the end of our visit in May 1995.

**Wall Demolition Improperly Classified as Repair.** Officials of USAREUR and the U.S. Army Center for Public Works improperly classified \$176,000 of bathroom wall demolition as repair work instead of minor construction. To create enough space to accommodate the projected number of occupants, the bathroom and adjoining room walls had to be removed. The bathroom wall work did not qualify as a repair both because USAEDE officials did not document that the walls were failed or failing and because the designated functional purpose of the area within the building changed from hotel to office bathrooms. Nevertheless, USAREUR and U.S. Army Center for Public Works officials did not confirm their determination with the Army Assistant Chief of Staff for Installation Management before proceeding with the project.

### **Local Director of Engineering and Housing Not Consulted**

USAEDE officials made work classification determinations, even though they were not authorized to do so. USAEDE and USAREUR officials did not follow the chain of command and obtain work classification determinations from the Wiesbaden Director of Engineering and Housing. Work classification determinations were the responsibility of the Wiesbaden Director of Engineering and Housing. USAEDE and USAREUR officials stated that they did not involve the Director of Engineering and Housing because of time constraints. If the Wiesbaden Director of Engineering and Housing had been involved, the Director's personnel could have advised USAREUR and USAEDE officials of the true state of the property and most, if not all, of the mistakes in work classification should have been caught. We believe that the local Director of Engineering and Housing should make the initial work classification determinations and that only if required or requested should USAREUR officials review and approve the work classifications.

The USAREUR work classification official should have reviewed the USAEDE work classification determinations of line items in the proposal or the contract, especially because the Wiesbaden Director of Engineering and Housing was not involved. The only work classification determination reviewed by USAREUR officials before the audit was the wall demolition determination. A proposal or contract review could have prevented mistakes in work classification. However, improper work classifications went undetected because USAREUR work classification officials did not review the work classifications in the contract until the audit was announced.

### **Interpretation of Guidance**

Officials in the chain of command did not agree on when work could be classified as repair during a conversion. They disagreed on the primary reason for the repair and the results of the designated functional purpose test. To be classified as a repair, work must restore a facility to its designated functional purpose. Even though Army policy is to authorize repairs during a conversion only in limited circumstances, officials in the chain of command responded differently to the work classification of bathroom wall demolition. Summaries of those opinions follow.

**Opinion of the Army Assistant Chief of Staff for Installation Management.** An official from the Office of the Army Assistant Chief of Staff for Installation Management said that if the primary reason that the bathroom fixtures were removed and the bathroom walls were demolished was to free up additional office space, then the work did not qualify as repair. The Installation Management official said that not only was the work questionably documented as failed or failing, but the designated functional purpose of the facility changed. Because the designated functional purpose of the bathroom changed from hotel bathrooms to office bathrooms, the work should have been classified as minor construction.

**Opinion of the U.S. Army Center for Public Works.** A U.S. Army Center for Public Works official responsible for implementing written policy disagreed with the Army Assistant Chief of Staff for Installation Management official. The U.S. Army Center for Public Works official said that the work was done because the existing components in general were in a failed or failing condition and the guidance classifies such work as repair. Further, the official said the designated functional purpose was unchanged because the purpose of the building had been "administratively changed" to an office building before the conversion began. An administrative change substitutes the new facility classification for the old facility classification on paper before the conversion begins.

**Clarification of Guidance.** An official of the Office of the Army Assistant Chief of Staff for Installation Management said that work on the building shell and utility systems were the principal repairs contemplated during any conversion. Making an administrative conversion in advance of the conversion work circumvented congressional guidance, according to that official. The Installation Management official agreed with the need to clarify the definition of the designated functional purpose during conversions and with the need to state when work should be classified repair and when it should be classified construction. The guidance should state that administrative conversions do not change work classification determinations.

## **Corrective Actions Taken by Management**

The Assistant Secretary of the Army (Installations, Logistics, and Environment) took action to correct the funding for the conversion project. Following an in-process briefing given by our office, the Assistant Secretary obtained a \$462,000 Unspecified Minor Construction appropriation and notified Congress of the Amelia Earhart facility project. In addition, the Assistant Secretary directed the appropriate accounting adjustments to deobligate \$462,000 of FY 1993 Real Property Maintenance, Defense, funds and obligate \$462,000 of FY 1994 Military Construction, Army, funds, which includes an Unspecified Minor Construction appropriation. Therefore, the report contains no recommendations to correct the funding of the misclassification identified.

## **Recommendations, Management Comments, and Audit Response**

**Revised Recommendations.** As a result of management comments, we revised Recommendation B.1. to clarify that administrative conversions should not change work classification determinations and Recommendation B.2. to clarify that not all work classifications are required to be reviewed by U.S. Army Europe work classification officials.

**B.1.** We recommend the Army Assistant Chief of Staff for Installation Management clarify the guidance on when the designated functional purpose changes. The guidance should state when work should be classified as repair or as construction and should state that administrative conversions do not change work classification determinations.

**Management Comments.** The Army partially concurred, stating that guidance related to work classification during conversions would be clarified. However, the Army did not agree to forbid making administrative conversions, citing the need for command flexibility.

**Audit Response.** The Army comments are partially responsive. We consider the Army's comments on clarifying guidance responsive. Based on management comments and discussions with Army officials, we revised the recommendation to clarify our intention. We do not object to administrative conversions being made; however, we believe that making an administrative conversion should not affect the classification of work. We believe that making administrative conversions to change the classification of work circumvents the intent of congressional guidance and allows for classification of work as repair that would otherwise be classified as minor construction. We request the Army to reconsider its position on the administrative conversions and provide additional comments when responding to the final report.

## **Finding B. Work Management**

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**B.2. We recommend that the Commander, U.S. Army Europe, direct that work classification determinations be initially made by the local Director of Engineering and Housing. If required or requested, U.S. Army Europe work classification officials should review and approve the work classifications of the local Director of Engineering and Housing.**

**Management Comments.** The Army concurred in principle with the draft recommendation, stating that not all projects need to be reviewed particularly, the projects within the installation commander's authority.

**Audit Response.** The alternative action proposed by the Army is responsive and we have revised the recommendation to state that not all work classifications of the local Director of Engineering and Housing need to be reviewed. No additional comments are needed.

**B.3. We recommend that the Commander, U.S. Army Engineer District Europe, stop making work classification determinations that are the responsibility of the local Director of Engineering and Housing.**

**Management Comments.** The Army concurred.

**Audit Response.** The Army comments are not fully responsive because the comments did not provide a proposed action or date. We request that the Army provide additional information on the action to be taken to stop making work classification determinations in its response to the final report.

## **Part II - Additional Information**

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## Appendix A. Scope and Methodology

### Audit Scope

**Conversion of the Amelia Earhart Facility.** We reviewed the \$4.1 million basic contract, option, and proposed contract modifications related to the conversion of the Amelia Earhart facility from hotel to office space. We reviewed the construction project to determine whether the hotel needed to be gutted to accommodate the planned number of occupants. In addition, we reviewed the construction project and contract to determine whether work was properly classified as maintenance and repair or as minor construction.

We discussed the space requirements with officials from the Washington Headquarters Services Management Support Office and the Army program manager for space utilization. We used the space allocation guidance from both offices, along with the Army Regulation 405-70, to determine whether the administrative space was efficiently used. We reviewed the personnel strength reports, dated December 31, 1994, from the three tenants. We could not obtain the documentation that supports the original determination of space requirements by the 53rd Area Support Group; furthermore, all the officials associated with the space determination were no longer at the 53rd Area Support Group and could not be located. We used the gross square feet provided by USAEDE. We did not use the USAEDE computation of net square feet because the information provided was not in sufficient detail.

We discussed the work classification of the project with the responsible officials in the Army chain of command. We also attempted to determine the repairs and improvements previously made to the facility with Director of Engineering and Housing personnel at Wiesbaden and the previous staff, project managers, and managers for the facility; however, very little documentation remained of the repairs or improvements previously made.

**Audit Period, Standards, and Locations.** We performed this economy and efficiency audit from October 1994 through August 1995 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We did not rely on computer-processed data during the audit. Appendix E lists the organizations visited or contacted during the audit.

## Management Control Program

DoD Directive 5010.38, "Internal Management Control Program," April 14, 1987, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

**Scope of Review of Management Control Program.** The audit evaluated management controls relating to space requirements and project work classification determinations. We did not assess the adequacy of management's self-evaluation of those controls because the scope of our audit was limited to one project and was not sufficient to evaluate self-evaluation of management controls.

**Adequacy of Management Controls.** We identified no material management control weaknesses relating to administrative space requirements and project work classification determinations.

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## **Appendix B. Prior Audits and Other Reviews**

Two previous audits have discussed potential improper classification of minor construction work as repair work. The Army disagreed with the findings in both cases, stating that the work was properly classified. After further Department of the Army review, appropriate corrective actions were taken in both cases.

### **Inspector General, DoD**

Report No. 93-114, "Management of Distinguished Visitors' Quarters at Fort Myer, Virginia," June 18, 1993, shows that Operation and Maintenance funds and Nonappropriated funds were incorrectly used instead of Military Construction funds. The audit determined that work to the bathrooms was improperly classified as repair and exceeded the minor construction limitation. As a result, a new obligation was required to correct the funding.

The report recommended that the Army obtain Military Construction, Army, funds; deobligate Operation and Maintenance, Army, funds; and initiate an Antideficiency Act investigation as required by Army Regulation 37-1. The Army nonconcurred with the finding and recommendation. The Army stated that the work was properly classified as repair. The Army further stated that, in part, the disagreement between the Inspector General, DoD, and the Army resulted from the lack of specific, clear-cut guidance on the classification of maintenance and repair work versus minor construction. After further Inspector General, DoD, and Department of the Army review, corrective action was taken.

### **Army Audit Agency**

Report No. SW 91-3, "Renovation and Repair Projects Fitzsimons Army Medical Center, Aurora, Colorado," March 14, 1991, states that renovations of the medical center were not properly classified as repairs, project files were not adequately documented to show the basis for the work classifications, and management oversight of Real Property Maintenance, Repair, and Construction projects was not adequate to ensure that work was properly classified and funded. As a result, Army approval, as well as a new obligation of minor construction funds, was required, and a potential statutory funding violation reportable under the provisions of Army Regulation 37-1 may have occurred.



## **Appendix B. Prior Audits and Other Reviews**

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The Army Audit Agency recommended that project justifications accurately reflect the basis for each project and contain supporting documentation. It also recommended that Military Construction, Army, funds be sought; the Operation and Maintenance, Army, funds be deobligated; and an Antideficiency Act investigation begin as required by Army Regulation 37-1. The Army nonconcurred with the findings and recommendations. The Army stated that the work was properly classified as repair and that the Army Audit Agency misunderstood or misconstrued the regulations. After further Department of the Army review, appropriate action was taken to close the case.

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## Appendix C. Summary of Allegations and Audit Results

The audit was performed in response to a complaint to the Defense Hotline that alleged that the plan by USAEDE to gut the Amelia Earhart building was unnecessary and was based on the USAEDE preference for large and open work spaces. Further, the complaint alleged that work was improperly classified and that minor construction costs exceeded the statutory limit of \$300,000. The following summarizes each allegation and the results of the audit of each allegation.

**Allegation 1.** The plan to gut the building was unnecessary and was based on the USAEDE preference for large and open work spaces. In addition, the design should follow the conversion of the American Arms Hotel, which used existing walls and bathrooms, which would save about \$2.2 million.

**Audit Results.** The allegation was partially valid. USAEDE personnel overstated the number of authorized personnel and number of conference rooms needed to justify the project. However, because the Amelia Earhart facility had only about 375 rooms for the 470 authorized personnel, some rooms needed to have the bathroom and adjoining walls removed to free up otherwise unusable space. At 153 square feet, the Amelia Earhart rooms were too small to satisfy the 230-square-foot requirement for two people. In addition, the American Arms Hotel had half as many bathrooms and the rooms were 18 square feet larger. The Army could have saved renovation costs if USAEDE officials had planned the contract properly. However, because the contract was awarded before the audit was announced, and work on it was almost complete when the field work was complete, the cost to terminate the contract outweighed the potential monetary benefits. See Finding A for further details.

**Allegation 2.** Minor construction was improperly classified as repair. Further, minor construction costs probably exceeded the \$300,000 limit and an Unspecified Minor Construction appropriation was needed. However, funds for an Unspecified Minor Construction appropriation were not available.

**Audit Results.** The allegation was valid. The Army improperly classified minor construction work as repair work, and minor construction work exceeded the statutory limit of \$300,000 for Real Property Maintenance, Defense, funds. Subsequent to an in-process briefing given by our office, the Army obtained a \$462,000 Unspecified Minor Construction appropriation and took other corrective actions. See Finding B for further details.

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## **Appendix D. Summary of Potential Benefits Resulting From Audit**

<b>Recommendation Reference</b>	<b>Description of Benefit</b>	<b>Amount or Type of Benefit</b>
A.1. and A.2.	Economy and Efficiency. More than three floors of office space could be utilized by other organizations in Europe.	About \$1.6 million of funds could be put to better use.
B.1.	Compliance With Regulations. Provides guidance on making work classification determinations.	Nonmonetary.
B.2. and B.3.	Management Controls. Directs that work classification determinations be made by the proper officials.	Nonmonetary.

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## **Appendix E. Organizations Visited or Contacted**

### **Office of the Secretary of Defense**

Management Support Office, Washington Headquarters Services, Washington, DC

### **Department of the Army**

Assistant Secretary of the Army (Installations, Logistics, and Environment),  
Washington, DC

Assistant Chief of Staff for Installation Management, Alexandria, VA  
Facilities and Housing Directorate, Plans Division, Washington, DC

U.S. Army Corps of Engineers, Washington, DC

U.S. Army Center for Public Works, Alexandria, VA

U.S. Army Corps of Engineers, Trans-Atlantic Division, Winchester, VA

U.S. Army Engineer District Europe, Frankfurt, Germany

U.S. Army Europe, Heidelberg, Germany

U.S. Army Europe, Contracting Command, Seckenheim, Germany

U.S. Army Europe Contracting Center, Frankfurt, Germany\*

53rd Area Support Group, Bad Kreuznach, Germany

U.S. Army Europe, Director of Engineering and Housing, Wiesbaden, Germany

Amelia Earhart Facility, Wiesbaden, Germany

American Arms Hotel, Wiesbaden, Germany

### **Other Defense Organizations**

Defense Logistics Agency, Alexandria, VA

Defense Contract Management Command International, Dayton, OH

Defense Contract Management Area Operations Germany, Frankfurt, Germany

\*Now Wiesbaden Regional Contracting Center, Wiesbaden, Germany.

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## **Appendix F. Report Distribution**

### **Office of the Secretary of Defense**

Under Secretary of Defense for Acquisition and Technology  
Director, Defense Logistics Studies Information Exchange  
Under Secretary of Defense (Comptroller)  
Deputy Chief Financial Officer  
Deputy Comptroller (Program/Budget)  
Assistant to the Secretary of Defense (Public Affairs)  
Director, Space Policy and Acquisition Division, Washington Headquarters Services

### **Department of the Army**

Assistant Secretary of the Army (Financial Management and Comptroller)  
Assistant Secretary of the Army (Installations, Logistics, and Environment)  
Assistant Chief of Staff for Installation Management  
Commander, U.S. Army Corps of Engineers  
Director, U.S. Army Center for Public Works  
Commander, Trans-Atlantic Division  
Commander, U.S. Army Engineer District Europe  
Commander, U.S. Army Europe  
Commander, U.S. Army Europe Contracting Command  
Chief, Wiesbaden Regional Contracting Center  
Commander, 53rd Area Support Group  
Auditor General, Department of the Army

### **Department of the Navy**

Assistant Secretary of the Navy (Financial Management and Comptroller)  
Auditor General, Department of the Navy

### **Department of the Air Force**

Assistant Secretary of the Air Force (Financial Management and Comptroller)  
Auditor General, Department of the Air Force

### **Unified Command**

Commander In Chief, U.S. European Command

## **Other Defense Organizations**

Director, Defense Contract Audit Agency  
Director, Defense Logistics Agency  
    Director, Defense Contract Management Command  
        Director, Defense Contract Management Command International  
        Director, Defense Contract Management Area Operations Germany  
Director, National Security Agency  
    Inspector General, National Security Agency

## **Non-Defense Federal Organizations**

Office of Management and Budget  
Technical Information Center, National Security and International Affairs Division,  
    General Accounting Office

Chairman and ranking minority member of each of the following congressional  
committees and subcommittees:

Senate Committee on Appropriations  
Senate Subcommittee on Defense, Committee on Appropriations  
Senate Committee on Armed Services  
Senate Committee on Governmental Affairs  
House Committee on Appropriations  
House Subcommittee on National Security, Committee on Appropriations  
House Committee on Government Reform and Oversight  
House Subcommittee on National Security, International Affairs, and Criminal  
    Justice, Committee on Government Reform and Oversight  
House Committee on National Security

## **Part III - Management Comments**

# Department of the Army Comments



DEPARTMENT OF THE ARMY  
ASSISTANT CHIEF OF STAFF FOR INSTALLATION MANAGEMENT  
800 ARMY PENTAGON  
WASHINGTON DC 20310-0800



REPLY TO  
ATTENTION @1

DAIM-FDP-P (405-70)

27 DEC 1995

~~MEMORANDUM THRU THE DIRECTOR OF THE ARMY STAFF~~ **GREGORY P. GULINE, LTC GS, ADECO**  
**5 JAN 1996**

~~ASSISTANT SECRETARY OF THE ARMY (INSTALLATIONS,  
LOGISTICS AND ENVIRONMENT)~~

FOR DIRECTOR, U.S. ARMY AUDIT AGENCY  
ATTN: SAAG-PMF-E, Rm 1C711

SUBJECT: Audit Report on Construction Project for the  
Conversion of the Amelia Earhart Facility, Germany (Project No.  
5CK-8002)

1. Reference memorandum your office, dated 7 Nov 95, SAB.  
(Enclosure 1)
2. The following comments are submitted concerning Finding A-  
Space Requirements and Finding B-Work Management of the subject  
audit report:

a. Finding A-Space Requirements. Concur with Finding A  
and resulting Recommendations as written. The methodology used  
by the Inspector General, Department of Defense (DoDIG), is  
valid and in accordance with the provisions of AR 405-70,  
Utilization of Real Property. The Office of the Assistant  
Chief of Staff for Installation Management (ASCI), in  
coordination with Headquarters, United States Army Corps of  
Engineers (HQUSACE), has provided technical assistance to the  
U.S. Army Engineer District Europe (USAED) to properly  
reevaluate and reduce their space requirement. USAED has  
significantly reduced their space requirement from 96,398 gross  
square feet (GSF) to 58,951 GSF. The adjustment from the DoDIG  
calculation of 53,400 GSF to the revised requirement is based  
on an increased authorized personnel level of 308 positions  
from the 267 positions used in the DoDIG audit report. As  
recommended in the audit report, the space requirements of  
other tenants of the Amelia Earhart facility should be  
reevaluated and adjusted accordingly.

GO: C HJ 03-1115

12/27/95  
ANNUAL REPORT  
03/1/96



DAIM-FDP-P

SUBJECT: Audit Report on Construction Project for the  
Conversion of the Amelia Earhart Facility, Germany (Project No.  
5CK-8002)

b. Finding B-Work Management.

1) Recommendation B-1. Partially concur with Recommendation B-1. A worldwide message will be sent to Major Army Commands (MACOMs) and installations clarifying work classification related to conversions. Non-concur with the portion of the recommendation that would unilaterally forbid administrative conversions. One mistake should not lead to forbidding administrative conversions across the board, to do so would negate the installation commander's ability to best manage facility assets. This is especially critical as installations are undergoing major restationing actions.

Revised

2) Recommendation B-2. Concur in principle with Recommendation B-2. However, not all projects need to be reviewed and approved by U.S. Army Europe (USAREUR) work classification officials. USAREUR officials should only review projects above the installation's approval authority or when requested to do so by the installation (e.g., lack of installation staff or technical expertise). Initial work classification is the responsibility of the local Director of Public Works (DPW) in accordance with paragraph 2-2, AR 420-10, Management of Installation Directorates of Engineering and Housing.

Revised

3) Recommendation B-3. Concur fully with Recommendation B-3.

4) General Comments. The following general comments are submitted for consideration.

a) The report states, on page 9, in the first paragraph under the section headed; Work Classification and the Type of Funds: "Generally, any work necessary to convert a facility from one use to another is classified as construction, even if the component or system is failed or failing. However, such work may be classified as repair during a conversion if the work is needed on the exterior of the building, the basic structure, or major utility systems." The first sentence is incorrect and could lead to misunderstandings. Correctly stated the sentence should read: "For work to be classified as repair during a conversion, a component must exist, be in a failed or failing condition, and the repair would have been a valid requirement even if the conversion did not take place."

Page 8  
Revised

## Department of the Army Comments

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Final Report  
Reference

DAIM-FDP-P

SUBJECT: Audit Report on Construction Project for the  
Conversion of the Amelia Earhart Facility, Germany (Project No.  
SCK-8002)

Deleted

b) The report states, on page 12, in the third paragraph:  
"Most fixtures and piping within the bathroom would have needed  
to be classified as failed or failing before the removal of  
bathroom walls could be justified as repair." Recommend that  
this sentence be deleted from the report as it could be  
misunderstood. Failed plumbing by itself, does not justify  
removal of walls as repair.

3. Overall point of contact for this action is Mr. Randy Klug,  
this office, (703) 693-4583. Point of contact for comments  
concerning Finding B, including recommendations, is Mr. Stan  
Nickell, Facilities Policy Division, (703) 355-0175.

Encl  
as



FRANK L. MILLER, JR.  
Major General, GS,  
Assistant Chief of Staff  
for Installation Management

## **Audit Team Members**

This report was prepared by the Contract Management Directorate, Office of the Assistant Inspector General for Auditing, DoD.

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## INTERNET DOCUMENT INFORMATION FORM

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**C. Report's Point of Contact: (Name, Organization, Address, Office Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)  
Inspector General, Department of Defense  
400 Army Navy Drive (Room 801)  
Arlington, VA 22202-2884

**D. Currently Applicable Classification Level:** Unclassified

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